Contract Financing & Payment Issues as Reported in the

Assessment Reporter

Defense Contract Management Command **July–December 1998**
Assessment Center, Ft. Belvoir, VA **May 17, 1999** **703-767-2410**

Fifth Edition

This is the fifth edition of ***Assessment Reporter*** which is distributed twice a year. The purpose is to provide information on DCMC Assessment programs and to specifically summarize "Observations" made during on-site assessment visits to DCMC offices. The intent is to provide a perspective of contract administration process performance that will help all DCMC offices improve the quality and timeliness of Contract Administration Services (CAS). *Assessment Reporter* has been compiled by the Program Analysis Group of the DCMC Assessment Center. Comments may be addressed to Mr. Thomas McDonnell, 703-767-2410, thomas_mcdonnell @hq.dla.mil.

DCMC Assessment Programs

DCMC Assessment Programs are established by the DCMC Management Control and Assessment Process (MCAP)—*One Book*, Chapter 6.5.2a (formerly Part II, Chapter 9). The Internal Operations Assessment or ***IOA*** is the principal on-site assessment format. IOAs are validation reviews of Unit Self-Assessments (USAs) and Management Control Reviews (MCRs) which are conducted by CAOs. The IOA Team uses the DCMC Supplement to the *DLA Criteria for Performance Excellence* and DCMC *One Book* process requirements as the baseline for IOA evaluations.

IOA Observation Categories

IOA observations are assigned one of six "risk levels" or ratings as defined below:

Promising Practice. Doing a great job. One of the better approaches in the Command. Deserves honorable mention and should be shared with other CAOs. Customers are delighted.

Noteworthy. Doing a good job. Above average. All is working very well. Sustained stable and very capable results. Effort clearly contributes to a positive image for the organization. Customers and stakeholders are very satisfied.

Satisfactory. Satisfactory performance. In compliance with the intent of DLAD 5000.4, *One Book*, and/or the DLA Criteria for Performance Excellence (CPE). Doing an acceptable job. Stable and capable. Customers and stake-holders are satisfied.

Minor Concern. A condition which should be corrected but not necessarily immediately. No short-term danger of getting in trouble. Could be a *One Book* non-conformance, a CPE weakness or a less than optimal practice. Customers or stakeholders will not look favorably on this condition if it continues.

Major Concern. A condition which, if left uncorrected, will likely result in a Serious Concern (see below). It could either be a nonconformance to *One Book*, FAR, or public law - or - it could be a bad practice contributing to loss. Continuance of the condition will likely lead to customer or stakeholder dissatisfaction.

Serious Concern. The worst case condition has already occurred or the greatest potential negative impact has already been realized. This condition affects our effectiveness or efficiency - or - there is an apparent significant loss of government resources - or - the customers or stakeholders have expressed dissatisfaction with DCMC products or services.

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4.5.2 Progress Payments

Summary:

The Progress Payment process was reviewed at five locations resulting in 2 satisfactory and 3 minor concerns. A variety of issues were covered in the minor concerns: progress payments reviews did not routinely include technical reports; progress payments reviews were not consistently performed as set up by the schedule established on the Progress Payment Administrative Record (DLA Form 325); tracking of payments were not documented; annual reviews were being conducted beyond 12-month interval; and Progress Payment Authorization (DLA Form 1634) was not entered in Mechanization of Contract Administration Services until after the payment of the first progress payment.

Comment:

Need to emphasize importance of annual reviews and prompt recoupment of overpayments.

4.5.4 Public Vouchers

Summary:

The Public Vouchers process was assessed at five locations. Three were determined to be satisfactory, and two were minor concerns. One minor concern was that there was no verification that the amount of fee paid under cost type contracts was commensurate with progress. The other minor concern identified that the Administrative Contracting Officer did not ensure that limitation of cost/funds provisions and withholding provisions in the contracts were met. The ACO inappropriately relied on the Defense Contract Audit Agency to monitor payment of public vouchers for both cost and fee.

Comment:

There is no requirement to maintain paper copies, however annual and periodical reviews are required. Based on historical data, risk assessment, and ongoing issues/concerns, a surveillance plan would be required.

4.8.1 Termination for Convenience

Summary:

The process was reviewed at two locations—both were rated satisfactory. Overage dockets were being reduced, unilateral settlements were issued when appropriate, and dockets were properly tracked and reported. Underlying issues contributing to overages were: untimely litigation, unresolved subcontractor issues, and late receipt of plant clearance/inventory schedules.

4.8.2 Contract Closeout

Noteworthy. At DCMC Cleveland, CAR Part A, Section 1, contracts physically complete, indicated that only 12% of the contracts had final delivery dates over 120 days. The $0 obligated and the $0 unliquidated obligations in section 1 were either Basic Ordering Agreements or Indefinite Delivery type contracts. Production Complete remarks were appropriately managed. CAR Part A, Section 2, contracts to be closed out, were aggressively managed. The percentage of overaged closed contracts in July 1998 was 0.5%. The percentage had been consistently less than 2% for FY 98. Each ACO knew the status of their contracts regarding canceling funds. DCMC Cleveland begun the year (FY98) with $23M at risk and as of June 30, 1998, had only $1.1M at risk.

Noteworthy. At DCMC Boeing, Canoga Park, CAR Part A, Section 1, contracts physically complete, were reviewed for closeout status, updated, and reported to Senior Level Management. CAR Part A, Section 2 contracts had been aggressively worked. The CAO had reduced the contracts in overage status from 53% in Nov 97 to 18% by Oct 98. This was accomplished through teaming with the contractor and consistent interface with DFAS. The CAO also captured 100% of the funds that were at risk of canceling in FY98. They began the year with $5.9M of funds at risk, all of which were captured by the end of Jul 98.

Summary:

Of the nine CAOs reviewed, two were noteworthy, three were satisfactory, and four had minor concerns. The lack of MOCAS maintenance was a common concern regarding Part A, Section 1, contracts physically complete. Section 2, contracts to be closed out, and canceling funds were generally well administered.

<u>Part A, Section 1</u> contracts were not moved to Section 2 in a timely manner in five instances. Irregularities included: 28% to 42% of Section 1 contracts were 120 days beyond the FDD; contracts with $0 unliquidated obligations (ULO) were not moved to Section 2. Senior leadership was unaware of the irregularities in only one case, and, in most cases, had developed and deployed Corrective Action Plans (CAPs). Several CAOs had initiated a formal process, including metrics, for monitoring Section 1 progress. The metrics were reported internally each month.

Part A, Section 2 contracts were actively addressed with all of the CAO's meeting the DCMC goal for overage contracts. Contract Administrators and TAG teams were actively monitoring contract closeout progress. Partnering with DCAA, contractor's and DFAS was evident.

Canceling Funds were effectively managed. CAOs were performing at a higher and more effective level than last year. In all cases, CAOs were actively engaged in monitoring, reporting, and capturing canceling funds through the use of "burn down" plans. Contract administrator's had consistently performed to or exceeded forecasts.

Comment:

As reported in the last two editions of the Assessment Reporter, Contract Closeout continues to be an identified concern in IOAs and is a primary DCMC function. Although Contract Closeout remains a concern, there has been improvement. Effective MOCAS maintenance, beginning with contract receipt and review and continuing during contract performance, enhances Contract Closeout. Shared Data Warehouse (SDW) information regarding Section 1 contracts is an efficient, effective source to identify old FDDs, "U" codes, and $0 ULO contracts among other MOCAS data. Development of a CAO-wide plan to monitor and improve Section 1 progress will, in the long term, result in a more focused and effective approach to moving contracts through the closeout process. With Contract Closeout metrics steadily improving and with continuous efforts regarding canceling funds, Contract Closeout efforts by CAOs are, overall, resulting in positive trends.

6.1.1 Contract Receipt, Review and Postaward Planning

Summary:

The Contract Receipt, Review and Postaward Planning process was assessed at ten CAOs. Minor concerns were identified at six CAOs and four CAOs were found to be satisfactory. Minor concerns consisted of a lack of documentation of multifunctional reviews, the Postaward Orientation Determination not indicating that a Mechanization of Contract Administration Services (MOCAS) on-line reviews were performed, no evidence that MOCAS abstracts had been compared to the contract, contract abstracts missing, loose contractual documentation/and or correspondence in contract files, and a lack of customer notification letters.

Comment:

The Contract Receipt, Review and Postaward Planning process continues to be a challenge to the CAOs and of concern to the IOA team. CAOs must ensure that files are documented to validate reviews and analysis associated with Postaward Orientation and Contract Management Planning are performed by appropriate members of the multifunctional CAO team.

Effective contract review and documentation associated with contract planning and surveillance are key elements to successful contract management processes.

6.1.1. Administration of Orders/BOAs

Summary:

The Administration of Orders/BOAs process was assessed at one CAO. The process was determined to be satisfactory based on a follow-up review. The satisfactory observation was based on corrective action taken to obtain a current Class Justification and Approval (CJ&A) that had expired for one of the BOAs. In addition, the CAO identified and issued modifications to add CJ&A where needed. The CAO also incorporated the CJ&A expiration date on modification indexes.

Comment:

Basic Ordering Agreements must maintain a current CJ&A. The method to assure this occurs is strictly up to the CAO. Also, synopsizing an award that is in excess of $25,000 is requested to assure that small business concerns know who the prime contractor is on given contracts to create competition and broaden the business base.

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